Daiwa Capital Markets Hong Kong Limited

Elite Material (2383 TT)

Target price: **TWD6,022.00** (from TWD5,234.00)

Share price (15 Jun): **TWD5,030.00** | Up/downside: **+19.7%**

5 4 3 2 **1**

Buy
(unchanged)

Solid position to ride on CCL spec upgrades

- Spec upgrade roadmap debate only short-term noise
- EMC to retain leading position in CCL with full range of solutions
- Reaffirming our Buy (1) rating; lifting 12M TP to TWD6,022

Sheng Cheng
(886) 2 8758 6253
sheng.cheng@daiwacm-cathay.com.tw

Stacy Lin
(886) 2 8758 6252
stacy.lin@daiwacm-cathay.com.tw

What's new: We provide our latest view on EMC.

What's the impact: On-track spec upgrade trend. We believe the spec upgrade trend remains the key growth driver for CCL vendors. As per EMC management, above M7-grade (including M7) revenue in 4Q25 was over 50% and would likely reach 70% by end-2026. Before 3Q25, EMC used M6 as the broader line to distinguish AI-related (or high-end) CCL, indicating the ongoing spec upgrade driven by high-speed data transmission requirements. We believe from 2026, M7-M9 would be the mainstream materials, while mainstream materials would gradually migrate to M8-M10 from 2027. Based on our assumption, CCL vendors should benefit by c.30% ASP hikes from every generation upgrade, which would be a key growth story for EMC. As in our previous note on TUC, we further lift our CCL ASP by c.10% from 2H26 to reflect the increasing cost from resin, which is the key reason why we lift our earnings forecasts by 9-26%.

CCL grade migration roadmap. In the near term, we believe there are several debates on the CCL migration roadmap, with Quartz glass (Q-glass) fibre and polytetrafluoroethylene (PTFE) resin at the centre of discussion. To meet the high-end CCL requirement on electrical properties, Q-glass and PFTE resin became key materials in 2025 given the original M8 resin (ie, hydrocarbon resin) took some time to migrate to M9/M10 resin (still hydrocarbon). We believe the M9/10 resin has gone under certification in 2026, which then dissipates the importance of Q-glass fibre and PTFE resin. Also, EMC has devoted its majority resources to test different formulas between advanced hydrocarbon resin/PTFE resin and fibres (including low dk2, low dk3 glass, and Q glass). In fact, we believe the cost performance ratio for reaching M9/10 CCL requirements by adopting advanced hydrocarbon resins might be the easier way. However, considering the potential shortage of high-end glass fibre, we believe end customers will likely verify multiple solutions to meet end demand. In sum, we see EMC maintaining its lead position on advanced CCL with several solutions (different combinations of resin, glass fibre, and copper foil) and >50% market share in AI server and high-speed switches. Of note, EMC will also ramp up c.0.9m (c.10% capacity) of ABF CCL in 2027E, which could be another key ASP driver.

What we recommend: We reaffirm our Buy (1) rating. We raise our 12-month TP to TWD6,022, based on a higher 48x PER (vs. prior: 43x) on 1-year-forward EPS due to the steeper earnings trajectory growth. Key downside risk: weaker-than-expected AI server demand.

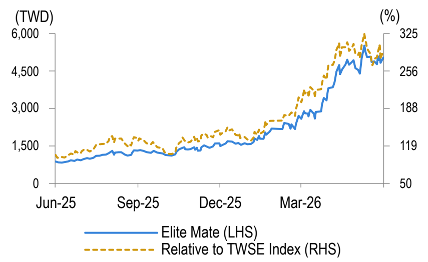
How we differ: Our 2026-28E EPS are 2-4% below the Bloomberg consensus, likely due to our higher opex ratio assumptions.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	6.5	10.3	12.3
Net profit change	9.0	19.4	26.4
Core EPS (FD) change	8.9	19.3	26.3

Source: Daiwa forecasts

Share price performance



12-month range	834.00-5,505.00
Market cap (USDbn)	57.00
3m avg daily turnover (USDm)	390.08
Shares outstanding (m)	358
Major shareholder	Yu Chang Investment Co Ltd (7.4%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	168,675	270,192	394,466
Operating profit (m)	41,090	75,568	117,298
Net profit (m)	31,867	58,978	91,549
Core EPS (fully-diluted)	88.877	164.489	255.329
EPS change (%)	113.3	85.1	55.2
Daiwa vs Cons. EPS (%)	(1.5)	(3.7)	(1.7)
PER (x)	56.6	30.6	19.7
Dividend yield (%)	1.1	2.0	3.0
DPS	53.4	98.8	153.3
PBR (x)	26.2	16.5	10.8
EV/EBITDA (x)	41.5	23.0	14.8
ROE (%)	53.4	66.1	66.3

Source: FactSet, Daiwa forecasts

EMC: Daiwa's revenue and earnings forecast revisions

	2026E			2027E			2028E		
(TWDm)	Previous	New	Consensus	Previous	New	Consensus	Previous	New	Consensus
Revenue	158,433	168,675	166,386	244,880	270,192	271,800	351,176	394,466	394,150
Diff (%)		6.5%	1.4%		10.3%	-0.6%		12.3%	0.1%
Gross margin (%)	31.9%	32.1%	32.2%	33.9%	35.2%	35.0%	34.5%	36.7%	35.5%
Operating profit	37,878	41,090	41,457	63,520	75,568	78,948	93,000	117,298	117,147
Operating margin (%)	23.9%	24.4%	24.9%	25.9%	28.0%	29.0%	26.5%	29.7%	29.7%
Net profit	29,244	31,867	32,072	49,415	58,978	60,185	72,434	91,549	93,070
EPS (TWD)	81.61	88.88	90.26	137.90	164.49	170.78	202.14	255.33	259.67
Diff (%)		8.9%	-1.5%		19.3%	-3.7%		26.3%	-1.7%

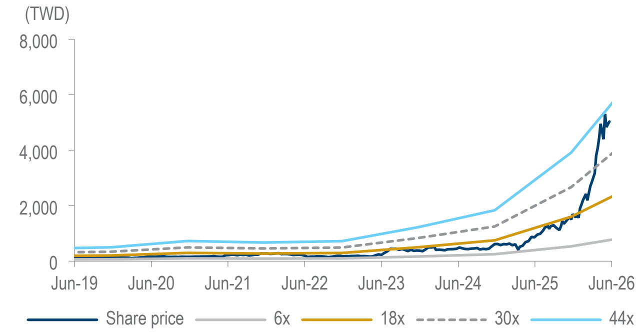
Source: Daiwa forecasts, Bloomberg

EMC: quarterly and annual P&L statement

	2026E				2027E				2025	2026E	2027E	2028E
(TWDm)	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
Net revenue	**33,067**	**42,246**	**44,778**	**48,584**	**56,111**	**64,103**	**70,711**	**79,267**	**94,261**	**168,675**	**270,192**	**394,466**
COGS	-23,338	-28,913	-30,135	-32,209	-36,769	-41,680	-45,708	-50,901	-66,141	-114,594	-175,058	-249,555
Gross profit	**9,729**	**13,334**	**14,643**	**16,375**	**19,342**	**22,423**	**25,003**	**28,366**	**28,120**	**54,081**	**95,134**	**144,911**
Operating expenses	2,601	3,295	3,403	3,692	4,152	4,615	5,091	5,707	9,012	12,991	19,566	27,613
Operating profit	**7,128**	**10,038**	**11,240**	**12,683**	**15,190**	**17,807**	**19,912**	**22,658**	**19,108**	**41,090**	**75,568**	**117,298**
Non-operating profit	66	-35	37	40	41	42	-20	-24	-232	108	39	66
Pre-tax profit	**7,194**	**10,004**	**11,277**	**12,723**	**15,231**	**17,849**	**19,892**	**22,634**	**18,876**	**41,197**	**75,607**	**117,364**
Net profit	**5,340**	**7,805**	**8,798**	**9,925**	**11,882**	**13,924**	**15,517**	**17,656**	**14,649**	**31,867**	**58,978**	**91,549**
Net EPS (TWD)	**14.90**	**21.78**	**24.55**	**27.70**	**33.16**	**38.86**	**43.31**	**49.27**	**41.7**	**88.9**	**164.5**	**255.3**
Operating Ratios												
Gross margin	29.4%	31.6%	32.7%	33.7%	34.5%	35.0%	35.4%	35.8%	29.8%	32.1%	35.2%	36.7%
Operating margin	21.6%	23.8%	25.1%	26.1%	27.1%	27.8%	28.2%	28.6%	20.3%	24.4%	28.0%	29.7%
Pre-tax margin	21.8%	23.7%	25.2%	26.2%	27.1%	27.8%	28.1%	28.6%	20.0%	24.4%	28.0%	29.8%
Net margin	16.1%	18.5%	19.6%	20.4%	21.2%	21.7%	21.9%	22.3%	15.5%	18.9%	21.8%	23.2%
YoY (%)												
Net revenue	53%	88%	78%	95%	70%	52%	58%	63%	46%	79%	60%	46%
Gross profit	48%	95%	93%	130%	99%	68%	71%	73%	56%	92%	76%	52%
Operating profit	57%	116%	125%	157%	113%	77%	77%	79%	57%	115%	84%	55%
Pre-tax profit	54%	124%	120%	175%	112%	78%	76%	78%	56%	113%	84%	55%
Net profit	54%	124%	122%	166%	123%	78%	76%	78%	53%	113%	85%	55%
QoQ (%)												
Net revenue	33%	28%	6%	9%	15%	14%	10%	12%				
Gross profit	37%	37%	10%	12%	18%	16%	12%	13%				
Operating profit	44%	41%	12%	13%	20%	17%	12%	14%				
Pre-tax profit	56%	39%	13%	13%	20%	17%	11%	14%				
Net profit	43%	46%	13%	13%	20%	17%	11%	14%				

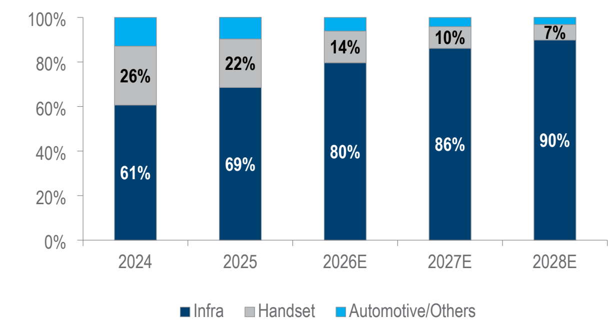
Source: Company, Daiwa forecasts

EMC: 1-year forward PER bands



Source: TEJ, Daiwa forecasts

EMC: revenue breakdown by product



Source: Company, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Global PC shipment (m)	361	301	260	263	287	244	244	244
Regular server shipment (m)	14	15	12	14	16	18	22	26
Global smartphone shipment (m)	1,655	1,437	1,381	1,439	1,429	1,249	1,255	1,300

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Infra	12,089	15,289	21,125	39,046	64,617	134,338	232,735	354,444
Handset	19,413	16,378	14,716	17,033	20,538	24,005	26,303	27,549
Other Revenue	6,998	7,005	5,455	8,297	9,106	10,333	11,155	12,473
Total Revenue	**38,500**	**38,673**	**41,296**	**64,377**	**94,261**	**168,675**	**270,192**	**394,466**
Other income	0	0	0	0	0	0	0	0
COGS	(28,431)	(28,962)	(29,964)	(46,407)	(66,141)	(114,594)	(175,058)	(249,555)
SG&A	(2,379)	(2,532)	(2,717)	(4,048)	(6,320)	(9,002)	(13,631)	(19,244)
Other op.expenses	(767)	(953)	(1,269)	(1,770)	(2,692)	(3,990)	(5,935)	(8,368)
Operating profit	**6,923**	**6,225**	**7,346**	**12,152**	**19,108**	**41,090**	**75,568**	**117,298**
Net-interest inc./(exp.)	(76)	(184)	(319)	(459)	(476)	(499)	(496)	(494)
Assoc/forex/extraord./others	66	255	392	440	244	607	535	560
Pre-tax profit	**6,912**	**6,296**	**7,420**	**12,133**	**18,876**	**41,197**	**75,607**	**117,364**
Tax	(1,412)	(1,220)	(1,931)	(2,564)	(4,231)	(9,336)	(16,634)	(25,820)
Min. int./pref. div./others	(7)	(3)	0	9	4	6	5	5
Net profit (reported)	**5,493**	**5,073**	**5,488**	**9,578**	**14,649**	**31,867**	**58,978**	**91,549**
Net profit (adjusted)	**5,493**	**5,073**	**5,488**	**9,578**	**14,649**	**31,867**	**58,978**	**91,549**
EPS (reported)(TWD)	**16.500**	**15.238**	**16.349**	**27.807**	**41.667**	**88.935**	**164.596**	**255.495**
EPS (adjusted)(TWD)	**16.500**	**15.238**	**16.349**	**27.807**	**41.667**	**88.935**	**164.596**	**255.495**
EPS (adjusted fully-diluted)(TWD)	**16.472**	**14.798**	**15.797**	**27.552**	**41.667**	**88.877**	**164.489**	**255.329**
DPS (TWD)	**10.000**	**8.407**	**9.979**	**16.575**	**24.996**	**53.359**	**98.758**	**153.297**
EBIT	**6,923**	**6,225**	**7,346**	**12,152**	**19,108**	**41,090**	**75,568**	**117,298**
EBITDA	**7,642**	**7,000**	**8,648**	**13,921**	**20,958**	**43,804**	**79,282**	**122,012**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	6,912	6,296	7,420	12,133	18,876	41,197	75,607	117,364
Depreciation and amortisation	719	774	1,302	1,769	1,849	2,714	3,714	4,714
Tax paid	(1,412)	(1,220)	(1,931)	(2,564)	(4,231)	(9,336)	(16,634)	(25,820)
Change in working capital	7,481	(4,810)	12,237	16,078	25,148	52,606	98,933	71,286
Other operational CF items	(9,679)	6,457	(16,138)	(20,153)	(29,674)	(78,876)	(126,121)	(93,183)
Cash flow from operations	**4,022**	**7,498**	**2,890**	**7,263**	**11,968**	**8,306**	**35,500**	**74,361**
Capex	(2,470)	(6,493)	(3,281)	(5,867)	(9,490)	(18,664)	(21,463)	(24,683)
Net (acquisitions)/disposals	(26)	0	6	13	(18)	1	(9)	(4)
Other investing CF items	(122)	(103)	(782)	(47)	(380)	(8)	0	0
Cash flow from investing	**(2,618)**	**(6,596)**	**(4,057)**	**(5,901)**	**(9,888)**	**(18,671)**	**(21,472)**	**(24,687)**
Change in debt	1,719	2,732	2,954	5,296	8,721	11,241	9,530	9,748
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(2,333)	(3,333)	(2,830)	(3,439)	(5,894)	(8,957)	(19,120)	(35,387)
Other financing CF items	194	3,289	(15)	2,259	(51)	3,109	0	0
Cash flow from financing	**(420)**	**2,687**	**109**	**4,116**	**2,776**	**5,394**	**(9,590)**	**(25,639)**
Forex effect/others	(73)	211	(126)	251	163	800	786	700
Change in cash	**910**	**3,802**	**(1,185)**	**5,729**	**5,020**	**(4,172)**	**5,224**	**24,735**
Free cash flow	1,551	1,005	(391)	1,397	2,478	(10,358)	14,037	49,678

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	6,642	10,444	9,259	14,989	20,008	15,836	21,061	45,796
Inventory	5,465	4,236	6,135	9,437	16,752	26,597	44,965	56,283
Accounts receivable	13,274	11,683	17,327	25,897	36,115	69,085	113,779	149,052
Other current assets	463	217	955	1,171	1,106	1,110	1,110	1,110
Total current assets	**25,844**	**26,580**	**33,675**	**51,494**	**73,980**	**112,629**	**180,914**	**252,240**
Fixed assets	10,721	16,803	19,746	24,568	33,933	51,105	68,854	88,822
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	0	0	6	18	0	(1)	8	12
Total assets	**36,565**	**43,382**	**53,427**	**76,080**	**107,913**	**163,733**	**249,776**	**341,075**
Short-term debt	2,717	5,299	7,866	7,781	11,264	15,405	19,226	22,909
Accounts payable	10,969	9,802	14,491	21,199	33,285	55,816	91,689	116,384
Other current liabilities	799	659	716	1,202	1,682	4,098	4,098	4,098
Total current liabilities	**14,485**	**15,760**	**23,073**	**30,182**	**46,231**	**75,319**	**115,013**	**143,391**
Long-term debt	721	4,218	2,109	8,772	8,219	15,799	21,508	27,573
Other non-current liabilities	1,585	1,330	1,435	2,032	3,027	3,726	3,726	3,726
Total liabilities	**16,791**	**21,308**	**26,617**	**40,986**	**57,477**	**94,844**	**140,247**	**174,690**
Share capital	3,329	3,329	3,432	3,466	3,583	3,583	3,583	3,583
Reserves/R.E./others	16,424	18,745	23,378	31,644	46,872	65,332	105,977	162,839
Shareholders' equity	**19,753**	**22,075**	**26,809**	**35,111**	**50,456**	**68,915**	**109,560**	**166,422**
Minority interests	21	0	0	(17)	(20)	(26)	(31)	(37)
Total equity & liabilities	**36,565**	**43,382**	**53,427**	**76,080**	**107,913**	**163,733**	**249,776**	**341,075**
EV	1,799,172	1,801,429	1,803,071	1,803,902	1,801,809	1,817,696	1,821,996	1,807,004
Net debt/(cash)	**(3,203)**	**(926)**	**716**	**1,564**	**(525)**	**15,368**	**19,673**	**4,686**
BVPS (TWD)	**59.332**	**66.306**	**79.860**	**101.931**	**143.516**	**192.329**	**305.760**	**464.451**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	41.5	0.4	6.8	55.9	46.4	78.9	60.2	46.0
EBITDA (YoY)	44.4	(8.4)	23.6	61.0	50.5	109.0	81.0	53.9
Operating profit (YoY)	47.8	(10.1)	18.0	65.4	57.2	115.0	83.9	55.2
Net profit (YoY)	48.9	(7.7)	8.2	74.5	52.9	117.5	85.1	55.2
Core EPS (fully-diluted) (YoY)	48.9	(10.2)	6.7	74.4	51.2	113.3	85.1	55.2
Gross-profit margin	26.2	25.1	27.4	27.9	29.8	32.1	35.2	36.7
EBITDA margin	19.8	18.1	20.9	21.6	22.2	26.0	29.3	30.9
Operating-profit margin	18.0	16.1	17.8	18.9	20.3	24.4	28.0	29.7
Net profit margin	14.3	13.1	13.3	14.9	15.5	18.9	21.8	23.2
ROAE	30.1	24.3	22.5	30.9	34.2	53.4	66.1	66.3
ROAA	17.1	12.7	11.3	14.8	15.9	23.5	28.5	31.0
ROCE	33.2	22.7	21.5	27.5	31.4	48.3	60.4	63.9
ROIC	37.6	26.6	22.3	29.9	34.3	47.4	55.2	60.9
Net debt to equity	net cash	net cash	2.7	4.5	net cash	22.3	18.0	2.8
Effective tax rate	20.4	19.4	26.0	21.1	22.4	22.7	22.0	22.0
Accounts receivable (days)	110.0	117.8	128.2	122.5	120.1	113.8	123.5	121.6
Current ratio (x)	1.8	1.7	1.5	1.7	1.6	1.5	1.6	1.8
Net interest cover (x)	0.9	0.4	0.2	0.3	0.4	0.8	1.5	2.4
Net dividend payout	60.6	55.2	61.1	59.6	60.0	60.0	60.0	60.0
Free cash flow yield	0.1	0.1	n.a.	0.1	0.1	n.a.	0.8	2.8

Source: FactSet, Daiwa forecasts

Company profile

Established in 1992 and listed on the Taiwan Stock Exchange in 1996, Elite Material Co. (EMC) is a leading manufacturer of copper clad laminate (CCL) and prepreg (PP), and a mass lamination foundry for PCB players. The company is also the world's largest green (halogen-free) CCL supplier.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	EMC has incorporated 3 independent members into its 7-people board of directors in pursuit of better governance. Besides, EMC's Chairman and CEO roles are held separately, which reduce the risk of conflict of interest and excessive concentration of power. In addition, the company has 2 committees: the Audit Committee and the Remuneration Committee to assist the Board of Directors in performing their supervisory duties
G	Capital management	1	EMC has declared a dividend payout ratio of over 50% in the past ten years, which we view as a shareholder-friendly dividend policy.
G	Related party & transaction	2	Revenue from related parties accounted for <1% of total revenue, and the purchases from related parties comprised <1% of cost of sales. We see limited risk from related-party transactions
S	Product design & lifecycle management	2	EMC strives to create a safe and healthy workplace for every employee. EMC has introduced the occupational safety and health management systems (ISO 45001) in its Headquarters and all production plants to reduce the workplace hazards and enhance its safety and health management level.
S	GHG emissions	2	To ensure data security, EMC has formulated its Directions for Information Security Management based on three principles for information security management, which are confidentiality, integrity, and availability. In 2023, there were no incidents involving the violation of information-security-related laws and regulations, and no information security incidents occurred.
Company specific		**Management**	**Analyst comments**
E	GHG emissions	2	EMC follows ISO 14061-1 2018 standards to conduct GHG emissions inventory and propose feasible solutions for greenhouse gas reduction. Besides, a third-party inspection agency is appointed to perform external verification.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 30 Jul 2025

Source: Daiwa, Company

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Rating	Percentage of total
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Source: Daiwa

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